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FOOD ENGINEERING

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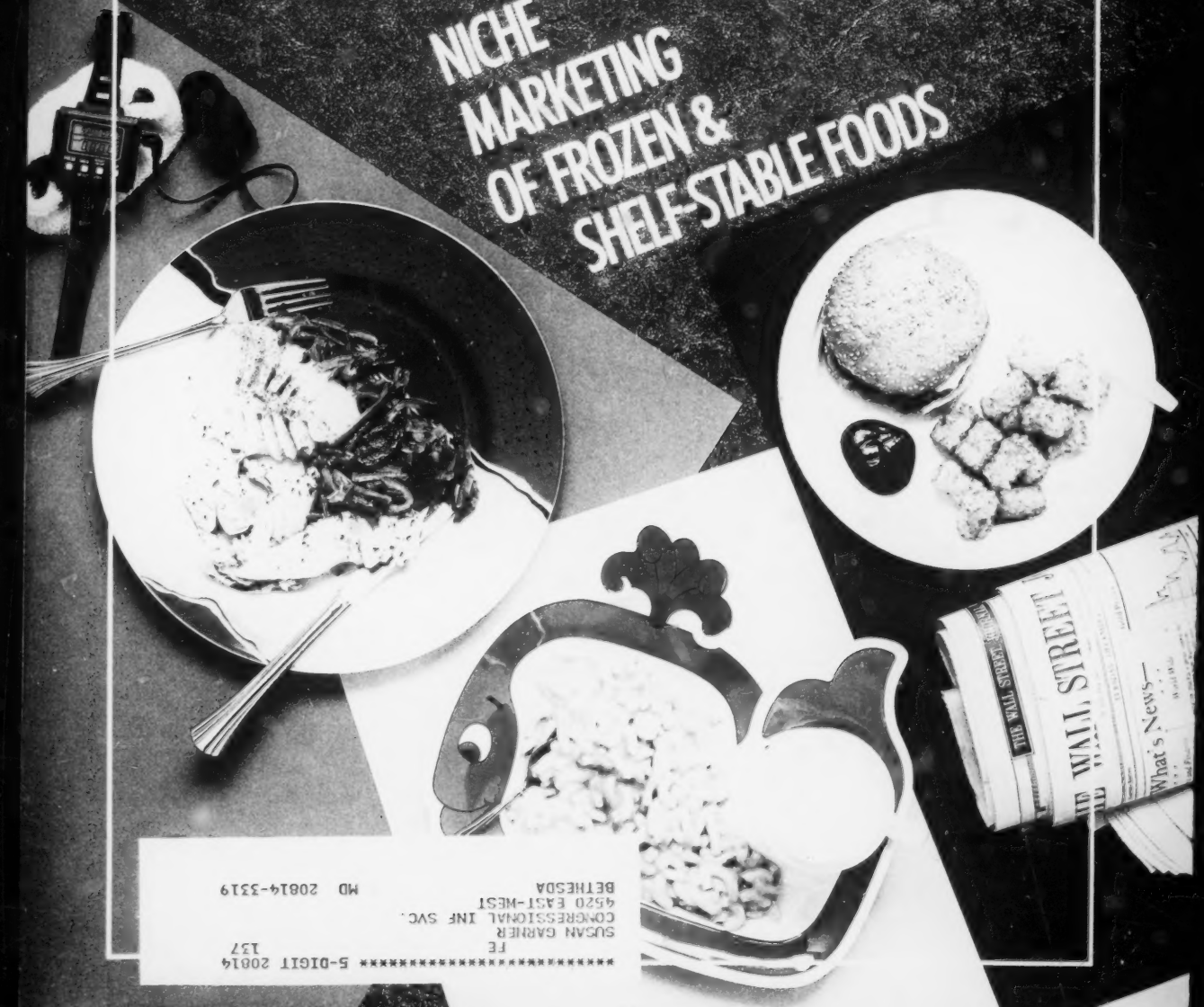
NICHE MARKETING OF FROZEN & SHELF-STABLE FOODS



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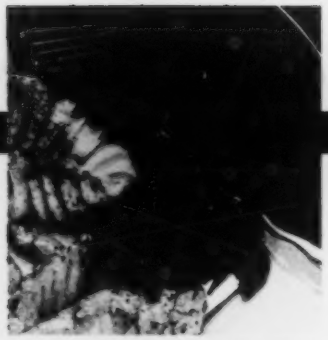

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Nutritional concerns and varying lifestyles are driving forces behind the evolution of the frozen and shelf-stable food industries. One result is a greater emphasis on niche marketing.

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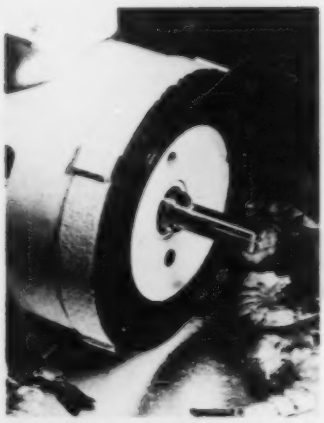

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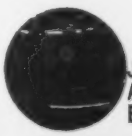

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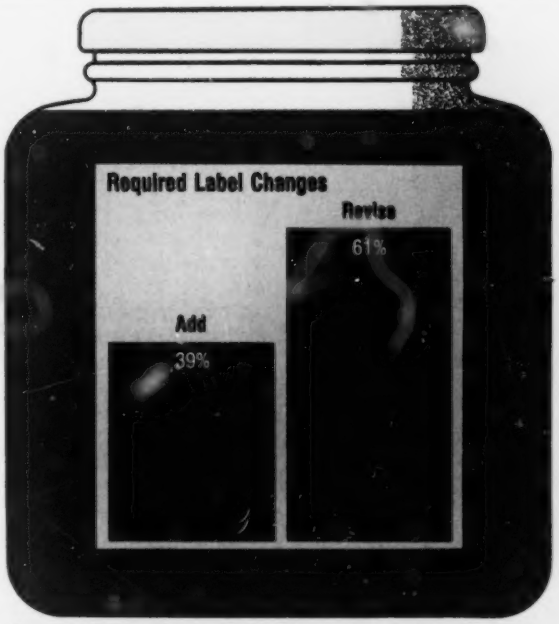
More time for labeling needed...

The National Food Processors Association (NFPA) has told the Food and Drug Administration (FDA) that industry needs more time to implement mandatory nutrition labeling and has asked the agency to make other key changes in its proposed regulations.

The NFPA is seeking a rollback of the proposed mid-1992 deadline to May 8, 1993 to "obtain the necessary nutrition data, undertake analyses, and redesigns and order new labels."

In response to FDA's estimate that the new regulations affect only 77,000 labels, NFPA said just ***one company it surveyed had 21,558 different labels*** *on hand. Different labels are required to identify different varieties of fruits, vegetables, optional color types, various styles of pack, types of packing medium, types of sweeteners used, use of different flavors, spices, ingredients, different sizes of containers, and various brand names.*



Some 39 percent of packaged food will need to add nutritional information to their labels while the 61 percent that already provide nutritional information will have to revise their labels to comply with new requirements. (Source: NFPA.)

Rather than squander resources on analytical testing for each packaged product, the NFPA said the FDA should allow manufacturers to base nutrient information on average values derived from sound nutrient databases.

Lawyers address food labeling...

Sheryl A. Marcouiller, food and drug counsel to Kraft General Foods, Inc., challenged the reasoning behind rules that require temporary marketing permits for dairy products that deviate from standards of identity. Addressing the annual Food and Drug Law Institute (FDLI) conference in Washington, DC held in mid-December, Marcouiller added that companies want to highlight the differences between "light" and regular foods, not hide them.

She questioned why "light" sour cream must get a permit while "light" yogurt is exempt. She added that the temporary permits for a major new product launch are "less than candid." Marcouillar said, "If the name for a new food like 'light sour cream' is clear, the temporary marketing permit process unnecessarily wastes valuable Food and Drug Administration (FDA) resources."

...FDA supports recycling

The FDLI conference also broached the topic of recycling. The FDA supports recycling such as industry trim and curbside collection programs, according to Kenneth J. Falci, Center for Food Safety and Applied Nutrition. Currently, the FDA has not determined how it will regulate recyclable polymers for food-contact use. However, at the very least, the agency expects recyclable polymers to meet virgin polymer standards and recyclers to collect plastic early in the disposal chain. Falci added that the FDA is seeking input from the industry regarding regulation of recycled food packaging.

Steven Paul Mahinka of Morgan, Lewis & Bockius, questioned the integrity of companies that advertise their plastic as being theoretically recyclable in markets where there are no facilities to recycle it. He also noted that the claims have been shifting from biodegradable to compostable.

Food industry must earn trust

"We must convince the consumer to trust us so when we put nutritional information on the label they'll believe us," said Keith Rinehart, vice president of technical services at Perdue Farms, Inc. as he discussed industry priorities at a seminar held at the Department of Food Science at the University of Delaware, Newark, DE.

Beginning in January, Perdue will provide nutritional information on its labels. Rinehart expressed ***concern regarding consumers' understanding of cholesterol*** *since as he said, "even 90 percent of the medical people are uninformed about cholesterol."*

Red meat & poultry Per capita consumption (in pounds)

Year	Red meat	Poultry
1990	130.5	90.4
1995[1]	125.0	110.0
2000[2]	118.0	122.0

[1]USDA estimate
[2]Rinehart's forecast
Source: Keith Rinehart of Perdue Farms, Inc.

Although chicken and red meat have the same amount of cholesterol, consumer perception that chicken is healthier continues to drive sales of poultry. Fish sales have also benefited from this trend and Rinehart said Perdue is considering the possibility of going into the fish business.

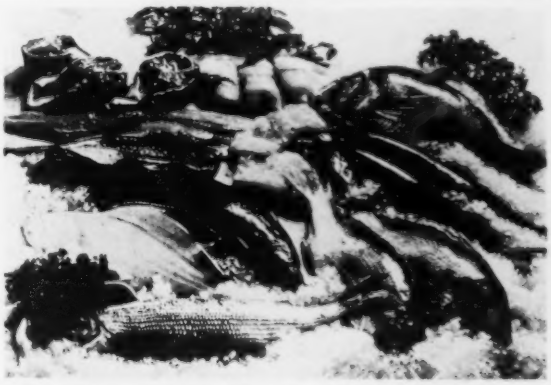
Rinehart also addressed areas the broiler industry is emphasizing in the wake of consumer health concerns and desire for convenience. Consumers can expect to see more skinless, boneless chicken, value-added products and advanced packaging to extend shelf life, he added.

However, environmental concerns may stymie development of controlled atmosphere packaging since its additional layers of material make it difficult to landfill, he said. But, Perdue has addressed environmentalism on another front, he said, through the use of fermentation of processing waste to destroy any chemicals that could leach into the ground of landfills.

Industry seeks bigger catch

This won't be the one that got away if the National Fisheries Institute (NFI) succeeds in fulfilling its goal of increasing U.S. per capita consumption of fish from the current 16 pounds per person to 20 pounds by the end of the decade.

NFI executive vice president Lee Weddig and staff economist Ron Rogness based their projections on three areas of growth: ***Shrimp consumption has been surging*** *over the past five years and is expected to continue. Unused or underutilized species from the coast of Alaska offer potential growth, with species including arrowtooth flounder, hake and Pacific whiting stocks. Finally,* ***greater commitment to aquaculture*** *by government and industry will be necessary to boost consumption.*



Increased consumption of shrimp and underutilized species will reel in increased seafood sales. (Source: NFI).

Dow Corning unveils R&D center

A new $30 million research and development center was unveiled by Dow Corning Corp. in mid-October at the firm's global headquarters in Midland, MI. The 164,000 sq. ft. facility features 60 labs which will focus on developing silicone products. Applications for the food industry include silicone lubricants, antifoams and release agents that meet U.S. Department of Agriculture and Food and Drug Administration standards. The facility was opened in conjunction with the opening of an $8 million facility in Yamakita, Japan.

SAY HELLO TO THE GLOBAL MARKETPLACE

To effectively compete, companies must increase spending on product development which will be financed through market expansion. U.S. firms must discover these new markets—throughout the world.

PATRICIA M. DILLON
SENIOR ASSOCIATE EDITOR

Global marketing isn't an exotic luxury for the adventurous few. Instead, it is a matter of survival. To survive in today's rapidly changing market, food companies must develop new products that are only possible with innovative ingredients and technology. Technological breakthroughs cost money and coupled with the shortened lifespan of products, the cost of product development has skyrocketed. With essential product development costs increasing, how can food companies afford to stay in business?

By increasing the number of products sold, according to James A. Tompkins of Tompkins Associates,

Heinz's worldwide prowess is legendary as demonstrated with this array of products. (Source: H.J. Heinz Co.)

U.S. Firm	Acquisition/ Investment	Country	Products
CPC International Foods	Conimex Ambrosia Desserts	Netherlands U.K.	Oriental food Desserts
Campbell Soup Co.	B.E. Verduijn	Netherlands	Confections
Chiquita Brands	Frupac (Cincinnati)	Chile	—
Coca-Cola	C-C Bottlers	Australia	Soft drinks
ConAgra, Inc.	Elders (Omaha) Dean Foods (Franklin Park, IL)	Australia U.K.	Brewery Foodservice products
Kraft/General Foods	Pietro Negroni	Italy	Cold meats
Geo. A. Hormel	Parkin Food	U.K.	Entrees
McCormick & Co.	Old Bay Crab Spice	U.K.	Spices
Philip Morris	Jacobs Suchard	Switzerland	Coffee, chocolate
Van Camp Seafood	P.T. Mantrust	Indonesia	Cannery

Source: The Food Institute.

Inc., a manufacturing strategy consultant based in Raleigh, NC. Since the U.S. food market is saturated, new markets must be found and other countries offer an entire world of opportunity. As Tompkins said, "there is really no choice" but to go global.

Since successful global products such as Coca-Cola or McDonald's hamburgers are not identical products worldwide, Tompkins said, "the correct definition of a world product or a global product is a product that has been developed while considering the needs for global customization," he added.

The Quaker Oats Co. believes in the concept of a pan-European product, according to Ron Bottrell, director of media relations. *Cruesli* cereal is manufactured in Rotterdam and is sold throughout Europe without any changes in flavor. Although it is less sweet than American breakfast cereals, the only difference between Cruesli cereal sold in different European countries is the language on the packaging.

Meeting the challenges of a global market is only possible by thinking global and acting local. Raw material transportation, production/packaging and finished goods transportation should function on a local level, yet network with subsidiaries in other countries, said Roger C. Bahnsen, partner, Coopers & Lybrand (C&L), New York.

Justify the cost

Top multinational companies have always shipped commodities, such as coffee beans, sugar, rice, and coffee from isolated regions to manufacturing facilities located throughout the world. However, it is not always practical to ship finished products as far, said James Warner, head of C&L's food & drink group in Europe. Gourmet or niche products, such as Russian caviar, American *Godiva* chocolate, *Beck's* beer, and French wine that sell at premium prices are examples of food products that justify the costs of shipping globally.

If global logistics is too heavy a concept, Warner said that many companies would benefit if they simply operated on a continental basis. Unification of the European market makes it sensible for a European food plant to ship finished products anywhere else on the European continent. Similarly, the U.S.-Canada free trade agreement and movement toward a U.S.-Mexico trade agreement would make the entire North American continent a single area that could coordinate logistics.

To formulate an efficient logistics strategy, Tompkins listed factors that must be addressed: time zones, languages, international fund transfers, currency transactions, customs, government agents, tariffs, trade restrictions, documentation, packaging, freight forwarding and cultural practices.

He emphasized the importance of becoming familiar with global logistics to avoid common complaints such as late delivery, poor communications or unreliable quality.

To overcome some of these problems, American businesspeople must avoid depending on telephone conversations or faxed messages to establish their first meeting with an overseas contact, said Rumen Dontchev, a specification technologist for American Home Food, Milton, PA.

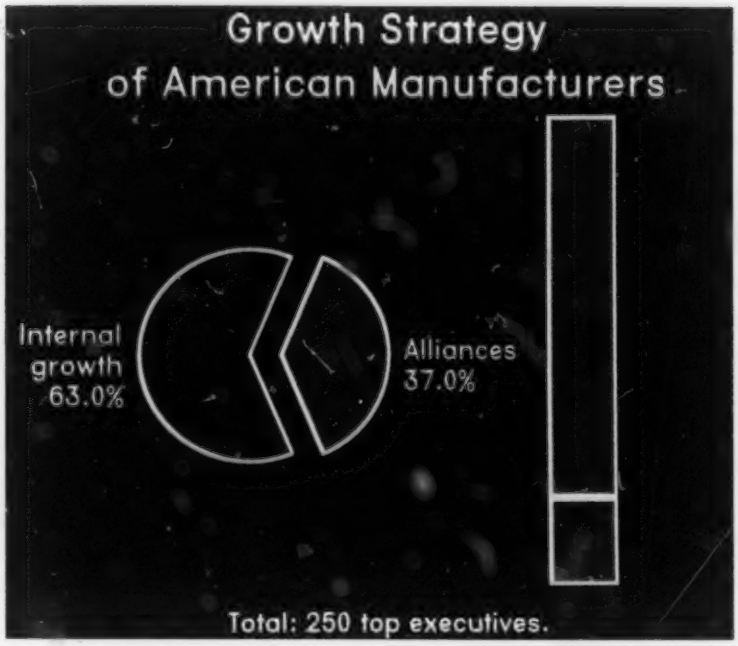
Dontchev, originally from Bulgaria, said communication problems evolve from cultural differences and can be avoided by first meeting clients face to face since "international business is still a very personal thing." While the personal touch is essential to global expansion, so is a strategy.

Nestlé's global strategy was summarized by Paul Kamber, senior vice president technical management at Nestec Ltd. in Vevey, Switzerland, as being the maximizing of synergies.

ConAgra, like Nestlé, gives its subsidiary companies enough independence to respond quickly to changing global conditions. An example of synergy is ConAgra's internal joint venture with its U.S. poultry company and its European company. Basically, ConAgra Europe will manage operations in Spain and Portugal and ConAgra Poultry will provide technical support.

Omaha-based ConAgra, which has operations in Asia, Europe, and Latin America, says it does not yet have a global manufacturing strategy. However, such a plan will be considered as new businesses are added, said Raymond Destin, executive vice president, Europe. He described the relationship between U.S. and European operations as being limited to "capital investment, banking strategies, legal coordination of acquisitions. Technical help can be obtained on request in all other areas."

Other large U.S. food companies are doing more business in overseas markets. International businesses accounted for over half of Borden's recent acquisitions, and "it is no accident," according to CEO R.J. Ventres as he addressed financial analysts in New York in November. In 1990, international sales are projected at about $2.2 billion or 28 percent of the company's total sales. Half of Borden's international business is in Europe, with the rest in the Pacific Rim and Latin America. Ventres added that Borden's strategy has succeeded in letting global acquisitions fuel growth in all of its businesses.



Thirty seven percent of the executives surveyed said they expect their companies to grow through acquisitions, joint ventures and strategic alliances. They expect four-fifths of these ventures to be with foreign partners. (Source: Grant Thornton.)

With the unified European market only a few years away, Heinz is preparing to gain a sizeable foothold in the market by building what it says is Western Europe's largest and most modern food processing plant at Kitt Green in the UK. The Pittsburgh-based food processor also recently purchased the *Orlando* line of tomato products to break into the Spanish market.

EC '92 has also beckoned Quaker Oats, which has had a presence in Europe since the turn of the century, to move its European headquarters from Chicago to Brussels by mid-1991. Just over half of Quaker's $1.08 billion business in Europe ($5 billion worldwide) is comprised of pet food which continues to grow. Quaker's *Gatorade*, which has been in Italy for two years, has been introduced in France

Foreign firm	Country	Acquisition/ Investment	Products
Ezaki Glico	Japan	MEI Diversified	Candy, snacks
Guinness Import	U.K.	All Brand Importers	Beer importer
Hartamaki Oy	Finland	Carousel Industries	Gumballs
Kyotaru Co.	Japan	Best Western Foods	Beef
President Ent.	Taiwan	Wyndham Foods	Girl Scout cookies
Procordia Group	Sweden	Bunte General	Seasonal candy
Polly Peck Int'l.	U.K.	Standard Fruit & Veg.	Fresh produce
R.T. Holdings Int'l.	Belgium	Cheese Division of Universal Foods	Cheese
	Belgium	U.S. cookie operation from BSN France	Cookies
Wessanen	Netherlands	Penn Dairies	Milk/dairy

Source: The Food Institute.

and Germany and will debut in the U.K. and Spain.

The collapse of communism in Eastern Europe has opened up more markets for U.S. companies already established in Western Europe. Monika Pacher, director USA of Industrial Cooperation and Development of Austria, an international consulting firm based in New York, echoed the words of Mikhail Gorbachev when she said now is the time for companies to position themselves in Eastern Europe and the USSR. "Americans are waiting for the dust to settle, but companies that make commitments within the next two to three years will take the market," she said. Pacher acknowledged difficulties with currency transfer but added that labor and production costs, which are as valuable as hard currency, are lower. Key advantages to getting into Eastern Europe are its low operations cost and access to other East European countries. Eventually, contacts lead to the U.S.S.R., she added.

A few top dogs

James E. Moorehouse, vice president of A.C. Kearney, a Chicago-based consulting firm, agreed that it is imperative to establish brand presence now in the USSR. "Only one or two top brands can be established per category in the Soviet Union. The infrastructure makes it tough to set up more than three," he said. Moorehouse acknowledged that initially, profits are scant but that the shear size of the market makes it worth the wait. He added that American companies must help find markets for Soviet and Eastern European goods to boost currency value.

Dontchev agreed, saying the convertibility of the ruble is meaningless if it is not backed by Soviet manufactured goods. "Gold isn't the only thing backing currency. The Soviets must have something worth selling otherwise, once a convertibility factor is established, the ruble will be devalued," he said.

Many of the international U.S. companies already are acting on plans to discover the capitalistic potential of Eastern Europe. Borden is negotiating to buy an existing bakery business near Leipzig, eastern Germany (formerly East Germany), which it plans to modernize and expand. In November, the company opened its first bakery retail outlet, *Nur Hier*, in eastern Germany. In addition, 40 new routes and four depots have been established to support future growth in the eastern Germany.

Heinz reorganized its European management structure and has revitalized its *Weight Watchers* franchise. In eastern Germany, the first Weight Watcher meetings were held in September 1990.

With sales over $15.5 billion in fiscal year 1990, ConAgra CEO Charles Harper stated the company's goals are to continue development of new products and proprietary technology which will "make ConAgra the best positioned U.S. company to help feed people better in the Soviet Union and Eastern Europe." ConAgra formed Eastern Europe and Soviet Union companies this year and signed an agreement to manage poultry and hog operations in the USSR.

Borden boasted of its first opening of a Nur Hier retail bakery in eastern Germany. (Source: Borden.)

S&W Fine Foods, Inc., Ramon, CA is an example of how a relatively small company established a global presence. Since the early 1920s, the company built its international presence from Hong Kong, the Philippines and Singapore to throughout the world. "It's no miracle," said Peter McKewen, vice president of operations. "The business was built up inch by inch. You don't charge into a new market; you tend to crawl in."

McKewen said S&W achieves distribution through its own representatives, local distributors and foreign agricultural programs which promote imports on three to four year cycles. S&W has entered the Eastern European market with a unique relationship with a heavy truck supplier. Mercedes in Germany pays cash for S&W products which it trades for Mercedes truck parts manufactured by Skoda Works based in Czechoslavakia. "We find it's not risky dealing in Eastern Europe because we get our cash beforehand," he said.

The pluralistic east

Each of the Eastern European countries are developing at a different pace: Dontchev described Hungary as the capitalist's best bet; Poland as politically dynamic but economically sluggish; Romania and Bulgaria as slow to change.

Experience, Inc., a world-wide agribusiness consultant, confirmed that "Hungary is the logical cornerstone for establishing a presence in Eastern Europe." Michael S. Munro, president and CEO of Experience, added that, "New legislation favors foreign investment. Private property reforms make it possible to buy equity in former state-owned enterprises and the government expects to privatize one third of its state enterprises," Munro added. State enterprises currently represent about 26 percent of all companies in Hungary.

Hungary became the first Eastern European country to receive permanent Most Favored Nation Trade status. It also has lower tariff rates under Generalized System of Preferences.

Meanwhile strides have been made in Poland by A. Epstein and Sons, International which announced its $40 million meat processing joint venture in September. "The concept that third world manufacturing conditions prevail in Eastern Europe is a fallacy," said Sidney Epstein when *FE* brought up the widely-held belief. "Central services are available, such as electricity and water," he said, "phone services aren't great, but you can build there," he said referring to the 600,000 square foot plant Epstein is building in the Starachowice joint venture.

Abraham Bakal, president of ABIC International Consultants, Inc., Fairfield, NJ, said any medium- to large-sized company that fails to investigate opportunities in Europe may lose its market in the U.S. Europeans are looking as closely at the U.S. market as Americans should be looking at the European market, he added. Both the Food and Drug Administration and Europe's regulatory agency are attuned to each other's regulations to the point that there may be common regulations between Canada, the U.S. and Western Europe within the next ten years, Bakal said. This confirms the global market has arrived and U.S. food companies must be ready to compete. ▲